

LOAN COMMITTEE

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LC/M/86-12
April 28, 1986

Minutes of Loan Committee Meeting to Consider
BOLIVIA - Reconstruction Import Credit
Held on April 11, 1986 in Conference Room E-1208

A. Present

Committee:

Messrs. E. Stern (Chairman)
Dherse, EISVP
Knox, LCNVP
Goldberg (Acting LEGVP)
Mrs. Krueger, VPERS

Others:

Messrs. Gue, LC2DR
Dubey, CPDDR
Finzi, LCPDR
Asanuma, PBDDR
Lysy, PBDGP
Mesdames. Marshall, LC2PB
Javier, LC2PB
Manley, LEGLC
Fox, CON

Collell, LEGLC
Carter, LC2DR
Köpp, SVPOP
Roger, VPERS
Flickenschild, IMF

B. Issues

The meeting was called to discuss the proposed Reconstruction Import Credit (RIC) of US\$55 million to Bolivia as described in the documents submitted to the Committee under cover of a memorandum dated March 27, 1986 from the Regional Vice President. The discussion focussed on the issues raised by the Office of Financial Policy, Planning and Budgeting and the Country Policy Department's memorandum of April 9, 1986.

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COMMITTEE

Senior Vice President, Operations (Chairman)
Senior Vice President, Finance
Vice President & General Counsel
Vice President, Operations Policy
Regional Vice President concerned*
Vice President, Energy & Industry (for lending
in these sectors and SALs)
Vice President, Economics and Research (for non-
project lending)

OTHERS

Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

C. Discussion

1. Medium-term Development Program. The Committee raised the issue of whether it was appropriate to proceed with the proposed operation before the Bolivian Government has defined a satisfactory medium-term development program and has reached a satisfactory arrangement with its various creditors, including the commercial banks. The Region replied that the country has suffered from a long history of disastrous economic management. The Government has now initiated a far reaching stabilization and structural reform program and urgently needs the international community's support to sustain its implementation. The proposed operation should be viewed as the first in a series of financial and technical assistance efforts needed to rebuild Bolivia's productive capacity. The Bank is actively assisting the Government in putting together a medium-term program; this will be discussed at a Consultative Group Meeting tentatively scheduled for October 1986. It was noted that the implementation of the stabilization reform is a pre-requisite for pursuing a medium-term development program. An IMF Stand-by is now being processed in support of the stabilization program. The Stand-by is scheduled to be presented to the Fund Board in mid-May. The Committee remarked that Bolivia is indeed in a transition period and it would probably take a year or two before a medium-term program can be fully put in place. The Chairman concluded that the Region should proceed with the proposed operation. It should be presented to the Board once the Fund Stand-by is effectively ready for Board approval (i.e., assurance that all outstanding issues have been resolved).

2. Credit Tranches. The Committee stressed the need to ensure that the Government is maintaining the momentum of implementation of the reforms and that adjustments to these reforms, if necessary, are undertaken. In this regard, the Committee inquired why the proposed credit is not to be disbursed in tranches. The Region replied that the proposed operation is structured in such a way as to permit it to be disbursed over a two year period against priority imports instead of against general import requirements. Both the mid-term program review and Credit allocation mechanisms would, in the event of Government's failure to sustain the reform program, allow a reassessment of the operation and possible recourse to suspension. The planned mid-term review of implementation progress of the program would be undertaken within nine months of Credit effectiveness but could be brought forward at IDA's request. Hence, although the Credit is not tranching, appropriate legal recourse exists to suspend disbursements if necessary.

3. Credit Allocation. The Chairman inquired why the proposed Credit is pre-allocated to specific enterprises and sectors rather than allowing the free foreign exchange market mechanism to determine the most appropriate use of the foreign exchange resources. The Region responded that the public enterprises and the private sector do not have the funds nor local credit to purchase the foreign exchange. Hence, the import financing under the proposed Credit has to be onlent to them. The

indicative allocation would ensure that the priority public enterprises, which account for almost 80% of Bolivia's exports, would get foreign exchange credit financing and at the same time would not crowd out the private sector. It was stressed that available financing to the public enterprises which are currently in dire straits, is a first step in their rehabilitation and reconstruction programs, which will be implemented with Bank assistance. The Chairman recommended that the justification in the President's Report for RIC financing for the public enterprises should be strengthened by emphasizing the linkages between the proposed operation and medium-term rehabilitation plans for these enterprises.

4. Mining Taxation. The Committee inquired about the implementation of the mining taxation proposals. The Region replied that the Government's initial decree establishing the program included a reform of the mining code which places a tax on profits. However, with low world prices, profits have been negative. Hence, the issue is academic at present. The Committee inquired about the reference made in the President's Report on the Government's delay in updating the presumed mining production costs. The Region clarified that these costs have now been updated. The Committee stressed that the Bank should ensure that the mining tax reforms which affect an important export sector of Bolivia are carried out efficiently.

5. Use of Local Funds. Referring to paragraph nine of the Region's March 27 memorandum, the Chairman disagreed with the proposal to explore during negotiations the use of reflows from the private sector subloans either as (i) a continuing credit line for the private sector with the funds maintained in a dollar-denominated account in the Central Bank; or (ii) counterpart funds for projects in an agreed public investment program. The Government should be allowed to use the local funds generated by the Credit for the purposes it deems appropriate, within the context of public expenditure programs which will in any event be under continuous discussions with the Bank Group.

6. Other Comments. In response to Mr. Stern's inquiries following the Meeting, the Region confirmed that (i) the economic projections in the President's Report are consistent with those of the IMF; and (ii) the President's Report will discuss to the extent allowed by available information the essential elements of the Government's medium-term economic program.

D. Conclusion

7. Subject to the clarification noted in paras. 1-5, the Committee approved the recommendations to proceed with the negotiations of the proposed Credit on the terms and conditions proposed by the Region.

Cleared with and cc: Messrs. Knox, LCNVP; Gue, Carter, LC2DR;
Ms. Manley, LEGLC